

# Governor Ernie Fletcher Delivers 2006 State Budget Address *January 17, 2006*



**F**irst Lady, Lieutenant Governor Pence, President Williams, Speaker Richards, Chief Justice Lambert, Constitutional Officers, Legislators, Justices, distinguished guests and my fellow Kentuckians, it is a privilege to be here this evening for the budget address.

President Williams, I understand your father had surgery today and that you have been by his side. Please know our thoughts and prayers are with you and your family.

Our thoughts and prayers are also with Representative Bruce. He is in the hospital and we regret that he can not be with us tonight.

Let me recognize my budget director and friend who has done an outstanding job, Brad Cowgill.

Let me also thank the budget staff for their tireless work in preparing the budget I present tonight for the seasoned advice they have given me.

Last year I recognized Bill Hintze, our retiring deputy budget director. His shoes were big. John Hicks, you're filling them well. Thank you.

And this year another outstanding individual will be retiring from the budget office, Beth Jurek. Beth, thanks for your 30 years of exemplary service.

And let me thank Representative Jeff Hoover for your courage for sponsoring this bill.

The philosophy which has guided my days and decisions in public life hold that each of us is endowed with a boundless potential . . . for achievement and excellence . . . for happiness and prosperity . . . for spiritual peace and virtue.

My singular mission is to bring us all to a place where opportunities are larger, newer, and brighter. So that this boundless potential can be fulfilled in the land of Unbridled Spirit.

Opportunities live in a place where government is an instrument sparingly used . . . a place where a promise made is a promise kept . . . a place where every public dollar is made to work for the public interest.

Taking us to that place of opportunity will: Move Kentucky from 44th to at least 25th in those with high school diplomas by 2025...

Move us from 42nd to 20th in attracting high-tech jobs by 2020...

Move us from 45th to at least 25th in per capita income by 2025.

And bring our health status to at least the national average during the next decade.

Tonight, I lay before you a budget that is efficient, responsible and progressive. It is a path to reach those goals.

The last two years have been distinguished by two landmark achievements. One, comprehensive tax reform, which has been a remarkable stimulant to our economy.

And two, an unprecedented commitment to government efficiency producing record savings and surpluses.

But here, as in other states, the increased cost of healthcare is draining our pension plans, ballooning our Medicaid program, jeopardizing our health insurance program, and even increasing the cost of housing prisoners.

Cost control is our biggest challenge, and health care costs are the root of the problem.

But working together, we can overcome any problem.

When so many said we must raise taxes to meet our needs, we stayed the course and now our state is recovering from a winter of economic stagnation.

We made new taxes unnecessary by stretching every dollar and creating savings.

Our strategy focuses on better technology with fewer people, working harder and smarter.

The expanding economy has been unflagging, meaning our businesses are more profitable and our families' incomes are higher.

But as we look ahead, three areas of government weigh heavily upon us... The Big Three: Medicaid, the state health insurance program and the pension plans.

With the Big Three weighing upon us, I directed our cabinets to save another \$100 million for the general fund this year.

They exceeded that goal. Two weeks ago, I announced that we were returning \$120 million to the General Fund.

And tonight I am announcing that we have increased that figure.

Let us thank the Cabinet Secretaries, staff and all our state workers for returning a total of \$142 million to the General Fund.

And to Secretary Nighbert for saving \$52 million that can now be used for building roads.

These hard earned savings enable us to make significant strides in education and economic development . . . all within our existing revenue sources and without raising taxes.

Our government can live within its means, should live within its means and will live within its means.

At the end of the last fiscal year, I moved \$90 million into the rainy day fund, the maximum allowed by law.

That money is still there. And our credit rating is stabilized, but the bond agencies are still watching us closely.

As much as any time in our recent history, it is imperative that we maintain at least this solid balance in this fund that protects our people from downturns in the economy, natural disasters, and unpredictable epidemics, such as avian flu.

Our people deserve the protection, stability and low cost of government that a good credit rating provides.

Raiding the rainy day fund is not necessary and it's not good government.

As we plan and dream of what can be, it is tempting to make promises that we cannot afford and to promise programs that we cannot fund.

The wise people who sent us here know that it's not what we promise, it's what we deliver....it's not how much we spend, it's the value of what we get for their hard earned money that's important.

When I was a boy, my father taught that

I should have to work for my money. He said it would teach me the value of a dollar. I would spend money more carefully if I had to earn it.

Dad was right. As a ten year old, it was hard work delivering the Lexington Leader...but it was rewarding, delivering that that balanced, conservative newspaper.

Every tax dollar we spend is the result of the hard work of those we serve. We are entrusted with a portion of their toil.

The budget I present tonight will make substantial investments in public education.

The budget I present this evening will increase funding for primary and secondary education by \$160 million in '07 and \$357 million in '08, that's a 10.5 percent increase over 2006.

Our goal...greater education opportunities for our students. As Stu Silberman, the superintendent of Fayette County schools, rightly states, "It's about the kids."

Stu is with us tonight and let us say thank you for caring about our students.

So our goal for spending is...."about the kids"...the objective: to increase student achievement.

From the outset, I have focused on the crucial role of the teacher in the crucible of the classroom.

Now, after my remarks regarding intelligent design and education, some may think I also believe that the Earth is flat.

Well, in a way it is, as it has never been before.

Thomas Friedman, a New York Times columnist and the author of the best seller, "The World Is Flat," states that in the 1990s a whole set of technologies and political events converged..."

"It created a global platform that allowed more people to plug and play, collaborate and compete, share knowledge and share work, than anything we have ever seen in the history of the world."

He also said, "...most of our political elite have not realized that the world is flat."

Our children will compete with students in a global economy.

We know that when students and teachers are together in a classroom... the magic of learning occurs. In Kentucky, that happens only 175 days a year.

In fact, Kentucky has one of the lowest number of classroom days in the nation.

The national average is 180.

And as important, the average number of days global students spend with their teachers is over 193.

Recognizing this competitive disparity, there is a national trend toward increasing school days. Since 1980, many states have done so.

But, in Kentucky, the school calendar hasn't changed since 1962, the year of the Cuban Missile Crisis.

It is time we gave the students and teachers the tools they need to more effectively compete. I propose that we add one professional day to the first year, and two instructional days in the second.

This investment is a win...win. Teachers' salaries are increased, student achievement is improved and the taxpayer gets a good deal.

As we focus on the crucial role of the teacher, we should continue to expand the number of educators with high energy, high skills and high commitment. A well-targeted teacher compensation system will help us do that.

Therefore, my budget increases teacher compensation in three ways: first, we will lengthen the school calendar, as I have outlined.

Second, we will provide an across the board cost of living increase.

And third, we will put new money into a program of enhanced professional compensation.

This third element will be a program of differentiated compensation, not merit pay.

Merit pay was seen as an unfair, even punitive approach to teacher compensation during the 1980s.

I will add \$20 million to supplement teacher compensation to address critical shortages in certain academic areas, like math and science, to attract teachers to low-performing schools, and to target areas with high growth or high competition across the borders.

As the Prichard Committee has recommended, we want to compensate teachers for certain functions, like teacher coaching and acquisition of skills and knowledge, which are needed to increase student achievement.

The state board of education will receive school district proposals. Guided by a statement of principles they will distribute these funds to enhance teacher compensation statewide.

This total compensation package will provide additional 233 million dollars funding for teachers salaries over the next two years for an increase of 6.5 percent.

In addition to increasing salaries, it is

important to continue to provide quality healthcare for our teachers.

Since the first day, I've worked with an outstanding staff toward self insuring state employees and teachers.

We've accomplished that and we are saving money as we maintain an effective health insurance plan that will augment our effort to attract and maintain outstanding educators.

Within the classroom the most malleable and absorbing students are those in their tender years. That's why, what we do in a child's early years, has such lasting impact.

In one of my visits to an inner city school, I reviewed some Brigance scores and realized how fortunate most of us are. Our parents didn't have the disadvantages that many face.

I saw students who could not play the simple games I played with my kids and grandkids. Where's your nose, where's your ear, where's your chin?

If special attention isn't given, those children remain at risk of falling further behind and facing a closed door to life's opportunities.

My budget proposes 23.5 million new dollars for pre-school. That's a 46 percent increase and will fully fund preschool and finally match the KERA mandate.

I propose a matching program for Ready, Set Success that has ushered community resources to prepare each child for school by age six.

Let me recognize the First Lady, Representatives Wuchner, Draud and Fisher for their strong interest in this program which has proven so effective in northern Kentucky.

Tonight, I am also proposing a \$4.3 million investment in training our secondary students to be placed in high-demand, high-need careers. The result... 2,700 students will be better prepared for a technical career and higher paying jobs.

Higher education does equal higher return: for our citizens, for our society, and for our economy.

Our last budget made significant investments in higher education. In fact we ranked 10th nationally for funding increases.

We can be proud that Kentucky's college-going rate now exceeds the national rate.

More people are going to college, and more people are graduating.

Adult education enrollment has increased 144% in just five years.

I would like to introduce Melissa Cheek.

By being a full-time student at Morehead State University's West Liberty campus, she is setting an important example for her three children.

Melissa, thank you for being with us tonight.

My budget includes a \$140 million or an 8 percent increase in total funding for post-secondary education over the biennium.

There is \$115 million for operating funds in addition to a significant capital investment program.

It recognizes the council's benchmark funding process.

\$67 million dollars will go directly into the universities' and colleges' budget. While this amount is less than requested by the Council for Postsecondary Education and the institutions, it is affordable and sustainable, and is distributed in a manner that will maximize our return on investment.

Frankly, this is an area where I would like to do more.

A study released this summer concludes that higher education is reasonably affordable for most state students. However, that is not true for all students.

I have increased student scholarships by \$33 million, or 13% over two years and I fully fund the KEES program.

I propose nearly half of my capital budget, \$482 million, go toward postsecondary education. To include completing projects that were begun in the last budget, such as the UK Bed Tower.

Also, we've added more research space at U of L and recommend building a new UK pharmacy building for their top ranked Pharmacy School.

I have recommended projects at our regional universities that will help them meet their goals and growing needs.

I recommend that we continue to strengthen KCTCS and have proposed projects in the north, southeast and west designed to build careers.

Probably the fastest return on investment is to help adults improve their skills and earning power as 50,000 Kentuckians did last year.

So I increased the commitment to adult education by \$4 million over the biennium.

And working with Secretary Fox,... Commissioner Wilhoit and Dr. Layzell are improving the transition from one level of education to the next.

As part of that collaborative effort, to-

night I want to announce funding for a very important initiative: the Kentucky Education Network.

This investment will put our entire educational system on a common, high-speed network.

It will connect every school, every university, every school district, adult education centers and all education related agencies of government through the same electronic pipeline, resulting in more collaborative efforts, better information, and ultimately better education for all students.

For students, this will eventually allow us to test, track and intervene when necessary....reduce the time teachers spend grading the required tests....with scores available on the web immediately.

To fund this project, my budget contains \$59 million in new funding...including \$37 million in bonding and \$22 million in general funds.

My family is from eastern Kentucky and I was born in those foothills. Job creation there is more difficult. Infrastructure is challenging, but one thing is clear...many of the poor performing schools unfortunately are there.

And to improve economic development in this region, we must improve education.

With the windfall of Coal Severance tax we can now give the school children better opportunity.

I ask you to look favorably on my proposals. They are targeted and effective at improving student performance and creating opportunity and they leave sufficient funds in your single-county money for other needed projects.

I propose we invest \$5 million from multi-county funds into need-based scholarships.

This will meet the scholarship needs in coal counties, both east and west, and this program, will for the first time provide scholarships for part-time students.

Michael Goble is with us this evening.

He is a first generation college graduate from Floyd County and earned his bachelor's degree from Eastern Kentucky University.

And with a personal recommendation from President Glasser, he is now in his second year of medical school at UK.

This would not have been possible without scholarships and hard work. Congratulations, Michael.

"Read to Achieve" is working and I propose that we expand the program by \$4

million in coal counties. As the First Lady says, "If you get the reading right the rest will fall into place."

Tonight, Matt Hardy, a third grader is with us. The First Lady read to his class during one of her many school visits reading to children.

He wrote back, "I enjoyed hearing you read in the art room on Tuesday. Man, when I grow up...I could be the President. Yours truly, Matt Hardy."

Matt, thanks for being here and for appreciating the importance of reading.

Also, I recommend that money be earmarked to replace the 14 year old computers in coal county classrooms.

For our outstanding national guard, I once again fully fund the National Guard Tuition Assistance Program.

Within the UK business plan, it states that we do not have enough jobs for our graduates. Unfortunately, this is true.

And if we increase our graduation rates without encouraging entrepreneurs and businesses, we will be simply subsidizing education for other states.

We cannot attain our educational goals unless we have a strong growing economy.

To grow our knowledge-based economy, we must expand our applied research. Let me introduce Dr. Daniel Wermeling, a research entrepreneur.

His company, Intranasal Technology, at the University of Kentucky's Coldstream Campus is taking off. Congratulations Dr. Wermeling for staying in Kentucky, improving healthcare and supporting our economy.

We have other research niches....U of L's expertise in transplant medicine, cardiology and cancer research. UK and U of L's work in bio- and nanotechnology is promising for the future.

In this budget, I have provided \$20 million in operational funds and \$20 million in bonding for the high tech construction and investment pool to support new economy initiatives. This will also target small business innovations and bioscience research.

The Department of Commercialization and Innovation will manage our efforts to encourage entrepreneurship and new high-growth ventures and create new opportunities from our intellectual capital.

I am continuing our investment in energy research, which will help us keep commercial energy rates the lowest in the

nation, promote clean coal technology for growing energy markets, tap the potential of coal-bed methane and vie for the \$1 billion FutureGen project.

As expected, you will find a request for \$75 million for the Louisville arena. This is important for all of Kentucky.

This project will generate \$1.1 billion over the next two decades...more revenue than it takes to build it.

I was raised a Wildcat fan, but I like the Cardinals too and they need this new arena.

This budget also includes \$35 million for a new arena at the Kentucky Horse Park. This new indoor show ring for the World Equestrian Games will make us a premier equestrian sports destination.

With us tonight is David O'Connor. David, an Olympic gold medalist, is the president of the U.S. Equestrian Federation and has dreamed of this day, bringing the games to our country.

David, Kentucky is proud to fulfill your dreams!

Let me now thank Secretary Strong and his staff. There is no better economic development team in the country and he will lead our Ryder Cup commission. He is not here tonight, he's out ginning up more business for Kentucky.

In today's business world, to stay competitive one must play in the international arena.

Exports to foreign countries contribute over \$12 billion annually to Kentucky's economy and provide more than 121,000 jobs.

To assist our exporters, we need an office in China's financial center, Shanghai. My budget contains the funding for this office.

To stimulate small business, I have included \$13 million to reduce the alternative minimum calculation for businesses with gross receipts less than \$10 million.

In fact, I will entirely eliminate the AMC for companies with receipts less than \$2 million. This will reduce taxes for 70,000 Kentucky businesses.

To provide more start-up money for small businesses, I propose eliminating the cap on tax credits for qualifying venture capital businesses who invest directly in Kentucky.

I am announcing a minority small business pilot program which will assist minority entrepreneurs and provide micro-loans.

I have also added \$20 million to fund ICARE. This healthcare plan will support businesses with up to 25 employees that

have not been able to offer health insurance. It will provide premium assistance from 40 to 60 dollars to help 4,000 small businesses.

As I said in the State of the Commonwealth, nearly half of those companies looking to build new plants, put Kentucky on their "No-Call List."

I recommend we give our workers the choice that has led to greater economic prosperity in our southern competitive states.

I do not make this suggestion lightly. My father was a union steel worker and I support collective bargaining. In fact, I helped it pass for our police and firefighters.

I understand that this may be a difficult issue for some of you, but, we cannot live in the past. Employee Choice would confidently create 22,000 additional new jobs and would produce \$20 million over the next biennium in new revenue without raising taxes.

In fact, if Kentucky had passed this legislation a decade ago, we would have an estimated \$565 million more in this biennium from income taxes alone.

Think what we could be doing with that for education, healthcare and pension programs, in addition to reducing taxes that would even further stimulate our economy.

My budget does not contain the language for Employee Choice, but, it does include the \$20 million awaiting us, if you pass this legislation. With this money I fund one of the two additional instructional days for our students.

I hope you decide to give Kentuckians higher incomes and another day of school.

Part of "Get Competitive Kentucky" is an outstanding System of Safe Highways.

In the past two years, we embarked on near-record-funding for the safety and maintenance of our transportation infrastructure.

In this budget I recommend \$75 million in new highway bonds for counties and cities similar to last year's successful program and \$290 million in GARVEE bonds to help improve our interstate highways.

This budget includes an increase of \$98 million in funding for our existing highway system.

Kentucky has been long known for its outdoor sports. And our Department of Fish and Wildlife and other organizations have done an outstanding job restoring, what has become, the largest Elk herd in the Eastern United States.

To take advantage of this beautiful resource, I recommend taking \$3 million of multi-county coal severance funds to purchase easement rights for several thousand acres and build a viewing area to allow more people to enjoy these amazing animals.

This will become a major tourist destination.

My last budgetary initiative for "Get Competitive Kentucky" is repeal of Prevailing Wage.

Prevailing Wage law results in higher construction costs and fewer building projects including schools.

School buildings and university projects generally comprise a big share of the state's capital construction.

In fact, I propose \$603 million for education projects....that's 64 percent of all budgeted capital construction.

The budget I submit to you has shown restraint in these projects and conforms to the 6 percent rule which has served us so well.

But we want to get the most out of every dollar.

I believe the time for Prevailing Wage laws has come and gone. It makes every school building more expensive.

Just last year, Pike County school superintendent, Frank Welch found that the Prevailing Wage law was a significant factor, among other issues that drove up the cost of the Belfry High School from \$18 to \$32 million.

Simply passing my budget with this language will result in a savings of nearly \$60 million.

As part of "Get Healthy Kentucky, let me turn to one of the Big Three, Medicaid.

The current Medicaid program must be transformed into a 21st Century health delivery system. We have laid the framework for fundamental change.

Tonight, I am proud to announce that we have received initial federal approval for our comprehensive Medicaid reform, Kentucky Health Choices.

I understand we are one of only three states to have received such approval.

This represents a major milestone as we move to modernize and enhance Medicaid.

With the total cost of Kentucky's Medicaid Program approaching \$5 billion, Kentucky Health Choices will represent the most significant change since Medicaid's inception.

Let me thank Secretary Birdwhistell and a wonderful health care team for their outstanding work. Because of you we have

the best Medicaid modernization plan in the nation.

The goal of Kentucky Health Choices is two-fold:

--To stretch resources to appropriately care for Medicaid recipients...

--And to encourage recipients to become healthier by allowing them to play a greater role in their own healthcare decisions.

Additional General Funds for Medicaid Benefits include \$68 million in the current year, almost \$90 million in '07, and \$130 million in '08 to meet the needs of over 700,000 Kentuckians...largely children, elderly and persons with disabilities.

As we modernize Medicaid we have also added over 114 million dollars of federal and state funding for:

Community Living...Alternatives for Children Program...mobile technology for protective services, mental health and mental retardation services, supported living, crisis stabilization support services, public health and services for the elderly.

The last of the Big Three is our pension requirements.

Like most public and private pensions, our retirement systems for teachers and state employees face funding challenges.

The increasing cost of healthcare, the aging of our workforce, the increasing costs of pension benefits, and the variability of investment returns, have all contributed to projected actuarial deficits.

The obligations to those who have served our state is not negotiable and this administration will meet those requirements.

But these challenges did not arise overnight, and we cannot, at the expense of all other priorities and obligations, close the gap in one fell swoop.

My budget includes a significant increase in the employer contribution rate for the Kentucky Employee Retirement System.

I propose a 24 percent increase in the first year and a 10.9 percent increase in the second year. With these increases, we will raise the rate to the highest it has been since 1999.

The primary challenge faced by the Kentucky Teachers Retirement System is the increasing cost of health care.

My budget proposal maintains the health insurance program for retirees, but necessarily relies on financing mechanisms that have been used in the past, but that are unsustainable in the long run. We must

address this issue over time.

This funding ensures benefits through the next biennium.

After a successful 2006 transition to a self-funded plan the Commonwealth is now taking full advantage of a single administrator that is statewide with uniform coverage.

This step enables us to better manage the health coverage, delivery and continuity of care for our employees and their families.

Only because we are self-funded are we able to maintain this level of coverage.

Let me commend Lieutenant Governor Pence for his leadership in corrections.

Tax payers are now paying almost 40% less for inmate healthcare without compromising care. That translates to more than 49 million dollars of expected recurring savings.

I recommend funding for an additional 109 probation and parole officers.

My budget includes an additional \$60 million to fund these and the addition expected inmates.

Full funding for Kentucky State Troopers is essential to public safety. At this point, KSP is only funded for 950 troopers, but authorized for 1,070.

The fastest and most cost efficient way to effectively add troopers is to authorize overtime. The 8.5 million additional dollars I recommend for KSP overtime will be equivalent to 50 more troopers protecting our communities.

Before I close, let me say I've learned a great deal these two years as Governor... about life and about justice. Now, I have a greater appreciation for the rights of every individual.

With that new insight, I want to commend Mr. Ernie Lewis for his work as our Public Advocate and to let all those, who defend those who can't defend themselves, know that I have added an additional 6.2 million dollars for their work.

In closing, let me again recommend, with even more confidence, that we should substitute a cigarette assessment on tobacco companies for the declining payments of the Master Settlement Agreement.

One, it will not risk our future payments. Two; it is not a tax increase. Three, it will provide an additional \$150 million each year that we have been sending to support the governments of other states.

With that additional money I will pro-

pose: \$45 million in small business tax cuts, \$40 million for postsecondary education, \$25 million for public employee and teacher retirement systems, \$19 million for teachers for another instructional day, \$10 million for the agricultural development fund, and additional money for debt service for projects.

In conclusion, I have outlined a budget that is efficient, responsible and progressive.

It is efficient because by good management we have saved the tax payers about \$300 million dollars.

It is responsible because we haven't made promises that we cannot keep.

It preserves the rainy day fund, it keeps our capital expenditures under 6 percent of revenue and it gets the most for every tax dollar.

It is progressive because it brings Medicaid in line with 21st Century medicine, it builds the technological tools for a connected, seamless education, it attracts and retains quality educators, it creates a more business friendly Kentucky, it takes our largest city to a new level and it will take us to a place where opportunities are larger, newer, brighter and more.

It makes us more competitive and healthier.

As you begin your budgetary deliberations, let me again thank you for last year's remarkable legislative session.

Because of that session we are here tonight with a Kentucky that is more prosperous.

Although we espouse many of the same goals, we will have our differences.

Don't let those differences divide us. Let us work through our differences, let us forge a partnership between both chambers and the administration to pass a budget that will move Kentucky forward.

We can not leave here without a budget.

My door is always open to you for productive discussions.

If we keep the door of productive communication open, we will leave this session together with a budget that will take us to a place called "opportunity".

Thank you and God Bless.